



USFR MEMORANDUM NO. 215

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: September 16, 2005

SUBJECT: Fiscal Year 2004-05 Annual Financial Report (AFR), and Classroom Site Fund (CSF) and Full-Day Kindergarten Fund Reporting Forms (Supersedes USFR Memorandum No. 208)

Arizona Revised Statutes (A.R.S.) §15-904 requires school districts to prepare and submit an AFR, in electronic format, by October 15 and does not provide for an extension of time to submit the AFR when October 15 falls on a weekend. The Auditor General in conjunction with ADE are required to prescribe the AFR format to be used by all school districts. The Auditor General and ADE developed the AFR format in Excel, to incorporate the information districts are statutorily required to include in their AFR. This format will assist districts in complying with AFR preparation and submission requirements. ADE will only accept FY 2004-05 AFR forms submitted electronically using either the Excel forms with the 9/05 revision date or software that produces an electronic file in a format approved by ADE. Districts may download the forms from the Auditor General's Web site at www.auditorgen.state.az.us/forms_schooldistrict.htm or ADE's Web site at www.ade.az.gov/schoolfinance/Forms/Budgets.

A.R.S. §15-904, was amended by Laws 2004, Chapter 340 to eliminate the requirement for districts to prepare a School-by-School AFR for FY 2004-05 and FY 2005-06. As a result, the School-by-School AFR has been eliminated. Also, A.R.S. §15-991 was amended by Laws 2004, Chapter 340, to eliminate the revenue budget; therefore, revenue budget amounts have been deleted or shaded, as appropriate.

A.R.S. §15-977(J) requires districts to report expenditures from the CSF by school and prepare a narrative summary of results of CSF usage at the district level. These two report forms, the Classroom Site Fund Expenditures by School and Narrative Results Summary, are not part of the AFR as prescribed by A.R.S. §15-904, but they have been included and districts should submit them with the AFR, as they are required to be filed with ADE by November 15.

A.R.S. §15-901.02(G) requires districts that receive monies from the state Full-Day Kindergarten Fund to report expenditures from the district's Full-Day Kindergarten Fund by school and other nonfinancial data related to the district's full-day kindergarten program. These three report forms, the Full-Day Kindergarten Fund Revenues/Expenditures by School for Funds 060 and 065, and Narrative by School, are not part of the AFR as prescribed by A.R.S. §15-904, but they have been included and districts should submit them with the AFR to ADE by October 15.

The completed forms must be uploaded via the Common Logon on ADE's Web site at www.ade.az.gov/commonlogon. For password information or help, please contact ADE's Support Center at (602) 542-7378 [outside the Phoenix area call (866) 577-9636] or email at enterprise@ade.az.gov. In addition, a hard copy of the AFR cover page with governing board approval must be sent to ADE once the forms have been submitted electronically. After filing the AFR, districts should electronically submit their summary accounting data file to the Office of the Auditor General, Division of School Audits, via email at

Sddata@auditorgen.state.az.us. Instructions for preparing the data file for both CIMS and Infinite Visions accounting systems are available on the Office's Web site at www.auditorgen.state.az.us/Reports/School_Districts/School_Districts.htm.

Districts not participating in the accounting responsibility program must submit the AFR to the County School Superintendent (CSS) for approval by October 15. Districts should contact the CSS for specific submission procedures.

Also, in accordance with A.R.S. §15-904, by November 15, the district governing board must publish in a newspaper of general circulation within the district or in the official newspaper of the county as defined in A.R.S. §11-255 (since the report provides information for the residents and taxpayers of the district, a newspaper that is widely read should be selected for publication), or mail to each household in the district, the AFR/Summary. Any publication of the AFR must be in at least 8-point type. The affidavit of publication must be filed with ADE within 30 days after publication, but not later than December 15. To meet this requirement, districts should mail the affidavit to: ADE, School Finance, Bin 13, 1535 West Jefferson, Phoenix, AZ 85007.

GENERAL INFORMATION

The following instructions are provided only for those line items that may need clarification. **All amounts should be rounded to the nearest dollar.**

Expenditure budget amounts should be taken from the district's most recently revised, adopted expenditure budget, which has been submitted to ADE, for FY 2004-05.

Revenues must include cash receipts through June 30, 2005, and accrued revenues received during the 60-day period following fiscal year-end. Examples of accrued revenues are federal reimbursements for meals served in FY 2004-05; property taxes collected during the 60-day period for levies of prior fiscal years; tuition received during the 60-day period for students attending the district during FY 2004-05; and FY 2004-05 CSF revenues received during the 60-day period.

Expenditures must include cash disbursements through June 30, 2005, and payments made during the 60-day encumbrance period for goods and services received on or before June 30, 2005, but not paid for by that date.

All revenues, expenditures, and fund balances presented on the AFR must agree with the district's accounting records as of June 30, 2005. Districts must reconcile their accounting records to those maintained by the CSS before completing the AFR. (District's in the accounting responsibility program must reconcile to the County Treasurer before completing the AFR.) Accrued revenues and expenditures at June 30, 2005, not recorded by the CSS should be identified as reconciling items on the reconciliation and must be included in the revenues and expenditures reported in the AFR.

DETAILED INSTRUCTIONS

ANNUAL FINANCIAL REPORT (ADE/AG 41-202, Rev. 9/05-FY 2004-05)

Cover Page

Once the governing board has signed the cover page of the AFR and the AFR has been electronically submitted to ADE, the superintendent and business manager should complete the cover page and sign where indicated. A copy of the completed cover page must be mailed to ADE, School Finance, Bin 13, 1535 West Jefferson, Phoenix, AZ 85007.

Page 1, Funds Available - Maintenance and Operation, Unrestricted Capital Outlay, and Soft Capital Allocation Funds

Line 1. The beginning fund balances at July 1, 2004, should be the ending balances reported on the AFR for FY 2003-04, if the ending balances were reported correctly, or you may compute them as follows:

Cash, prepaid, and inventory balances (object codes 0100, 0150, and 0160) at June 30, 2004.

Plus: Accrued revenues as of June 30, 2004, received during the 60-day period following June 30, 2004.

Less: Payments made during the 60-day period following June 30, 2004, for goods and services received on or before June 30, 2004, but not paid for by that date.

Ending fund balances at June 30, 2005, should be computed using the same method as shown for beginning fund balances. The beginning and ending fund balances for the Maintenance and Operation (M&O) Fund should include the amount of the M&O Fund revolving account cash balance on hand at July 1, 2004, and June 30, 2005, respectively. The revolving account balances should be recorded in the spaces provided in footnote (1) on page 1.

Line 15. The amount reported in the actual column (from the district's accounting records) should be compared to the total additional state aid amount shown on the June 15, 2005, ADE report, APOR 64-1, dated June 30, 2005.

Page 2, Maintenance and Operation Fund 001—Expenditures

Lines 12 and 13. Program 630 and Programs 700, 800, 900 budget amounts should be obtained from the most recently revised, adopted FY 2004-05 expenditure budget. Those programs were reported in total on the expenditure budget; however, they should be presented separately for AFR purposes.

Page 3, M&O Fund Special Education Programs by Type (Section C)

Lines 1 through 15 and 17 through 21. The actual amounts allocated to individual programs should be calculated by the same method used to allocate individual program costs to the budget. Documentation supporting the cost allocation method should be retained at the district and should include the reasoning behind the allocation, a list of the programs, the number of teachers and students by program, and all computation work sheets.

Page 3, Tuition Paid to Other Arizona Districts (Section I)

Line 1. Elementary districts not within a high school district (type 03) must enter the actual high school student tuition expenditures paid from each fund, including M&O, Unrestricted Capital Outlay (UCO), Soft Capital Allocation (SCA), and Debt Service (object codes 6561 and 6565).

Line 2. **All districts**, including type 03, must enter all tuition expenditures, paid from each fund listed, to other Arizona districts (object codes 6561 and 6565).

Page 4, Classroom Site Funds (011-013) Expenditures

Line 16. Total expenditures for FY 2004-05 in the Classroom Site Fund 011 – Base Salary cannot exceed 20% of the FY 2004-05 Classroom Site Fund allocation and any unexpended budget balance and interest earned for this fund from FY 2003-04. Monies in this fund can only be used for teacher base salary increases, employment-related expenses, and registered warrant expense for this fund.

Line 32. Total expenditures for FY 2004-05 in the Classroom Site Fund 012 – Performance Pay cannot exceed 40% of the FY 2004-05 Classroom Site Fund allocation and any unexpended budget balance and interest earned

for this fund from FY 2003-04. Monies in this fund can only be used for performance-based teacher compensation increases, employment-related expenses, and registered warrant expense for this fund.

Line 48. Total expenditures for FY 2004-05 in the Classroom Site Fund 013 – Other cannot exceed 40% of the FY 2004-05 Classroom Site Fund allocation and any unexpended budget balance and interest earned for this fund from FY 2003-04. Monies in this fund can only be used for the following maintenance and operation purposes: class size reduction, AIMS intervention, and dropout prevention programs for instructional purposes (other than athletics) coded to function 1000; teacher compensation increases; teacher development; teacher liability insurance premiums; and registered warrant expense for this fund.

Expenditures coded during the fiscal year to any of the individual Classroom Site Funds (011-013) that cause the district to exceed the Classroom Site Fund Budget Limit, or the appropriate percentage allocation for the individual fund as described above, should be reclassified to the M&O or other appropriate fund before the AFR is completed.

Page 5, Unrestricted Capital Outlay Fund (610) Expenditures

Line 1. Enter the budgeted and actual expenditure amounts from the Unrestricted Capital Outlay Override authorized by A.R.S. §15-481. Amounts included on line 1 must also be included on lines 2-9, as appropriate.

Lines 2-9. Amounts must include budgeted and actual expenditures from the Special Education Disability Title 8, P.L. 103-382 Add-On, Desegregation, Special K-3 Program Override, and Joint Career and Technical Education and Vocational Education Center, as reported in the Supplement, page 3.

Page 5, Capital Assets

Lines 1-3. Enter the total costs (before depreciation), by asset classification, recorded on the capital assets list as of June 30, 2005. In addition, any applicable assets recorded in the district's proprietary funds (i.e., Internal Service or Enterprise) should be included. Capital assets should be based on the district's capitalization threshold of \$5,000 or lower amount if approved by the governing board.

Line 4. Enter the total cost of construction in progress as of June 30, 2005. This amount will not appear on the capital assets list as of June 30, 2005, as it is not recorded on the list until the project is completed.

Page 7, Capital Funds (630, 685, 690, and 695)—Renovation and New Construction Lines

In accordance with A.R.S. §15-904(B), the total budgeted and actual expenditures, by fund, on page 6 must be separately reported as new construction or renovation. If the designation of new construction or renovation does not apply to a particular expenditure, the amount should be reported as "Other". Additionally, districts should report the costs per square foot for new construction and land acquisition costs on the lines provided.

Page 7, Debt Service (700) and Adjacent Ways (620) Funds

Lines 13 and 14. Principal, interest, and fiscal charges budgeted in FY 2004-05 and payable on July 1, 2005, should be included as expenditures of FY 2004-05. If the district has refunded a bond issue, payments to the bond escrow agent should be included on line 18 for the Debt Service Fund.

Page 7, New construction cost per square foot

Districts should report the cost per square foot for new construction projects in progress or completed during the fiscal year. For projects still in progress at year-end, districts should calculate the cost per square foot by dividing the anticipated total cost of the project upon completion by the anticipated total square footage of the project upon completion. For projects that were completed during the fiscal year, districts should calculate the

cost per square foot by dividing the total actual cost of the project upon completion by the total actual square footage of the project.

Page 7, Instructional Improvement Fund (020)

Up to 50% of the monies received from gaming revenue accounted for in the Instructional Improvement Fund may be used for teacher compensation increases and class size reduction. Expenditures for class size reduction, if any, must be appropriate expenditures under function 1000—Instruction, excluding athletics. The remaining monies must be used for the following maintenance and operation purposes: dropout prevention programs and instructional improvement programs including programs to develop minimum reading skills for students by the end of third grade.

Page 8, Net Interfund Transfer (Out) To Indirect Costs Column

Transfers out of Federal Project funds are allowed only to the Indirect Costs Fund by the *Uniform System of Financial Records*. Transfers into the Federal Project funds from the Indirect Costs Fund should be used only if an excessive amount was originally transferred to the Indirect Costs Fund. Transfers-in and transfers-out should be netted for reporting purposes. The net result should be negative and shown in parentheses.

Intergovernmental revenues and interest returned to the federal or state government are **not** recorded as reversions. Such revenue not spent by June 30 should be accounted for as a debit to object code 0103—Cash on Deposit with County Treasurer and a credit to object 0250—Deferred Revenues upon receipt, and later recognized as revenue simultaneously with the recognition of allowable expenditures. Upon the actual reversion of any unexpended portion of these monies, districts should reverse the initial entry for the amount reverted (i.e., debit 0250 and credit 0103). Alternatively, districts may choose to record such grants as revenues upon receipt, then at year-end reclassify the unspent portion from revenue to deferred revenue until reversion occurs.

In addition, interest received in excess of \$100 per grant (the portion owed to the government) should be accounted for as a credit to object code 0215—Due to Federal Government and when the interest is reverted debit object 0215.

Page 9, Other Funds

Lines 34 and 35. Districts should enter the FY 2004-05 most recently revised, adopted expenditure budget amounts for the Other Funds lines.

Page 9, Current Expenditures by Category (Section C)

A.R.S. §15-255 requires the Superintendent of Public Instruction's Annual Report to include total current expenditures per pupil and separate per pupil amounts by type of district for (1) classroom instruction excluding classroom supplies, (2) classroom supplies, (3) district and school administration, (4) support services-students, and (5) all other support services and operations. ADE will calculate the "per pupil" amounts based on the total current expenditures reported on lines 1 through 5 in Section C.

Lines 1 through 5. Current expenditures include expenditures from all funds for elementary and secondary education (e.g., M&O, CSF, most federal and state projects, etc., for K-12). Current expenditures do not include expenditures for land and improvements, buildings and improvements, furniture, equipment, technology, and vehicles, Internal Service Fund operations, Community School Fund operations, debt retirement, student activities, and nonpublic school programs (e.g., adult/continuing education, community college education, community services, and day care centers).

A.R.S. §15-746(A)(4) requires districts to include the above information in their School Report Cards. ADE has issued a separate form for districts to report this information for each school. The form is available on ADE's

Web site at www.ade.az.gov/schoolfinance/Forms/Budgets. Be sure to save the file locally prior to completing. Expenditures recorded at a district level should be allocated to schools based on student counts at each school.

When completed, the file must be uploaded via ADE's Common Logon, School Finance File Upload (Budget/AFR). Select "Fiscal Year: 2005", "File Type: Excel(.xls)", "Type and Version: 2005 Current Expenditures—School Level—Actual", then locate the file to be uploaded. Click "Upload File". This school level form is due November 1, 2005.

Districts with only one school that have completed the corresponding information on the submitted district level AFR are not required to submit this form.

Page 9, Total Cost of Energy Reduction Measures (Section E)

Report the cost of energy reduction measures adopted in accordance with A.R.S. §15-910.02. Include expenditures for employee training, energy service consultants/specialists, conservation measures, and efforts to improve energy efficiency. Do not include capital expenditures.

Pages 10, 11 and 12, Detail for Federal Projects, State Projects, and Other Funds

Amounts included on these pages provide the detail needed to determine the percentage of every dollar spent in the classroom, as required by A.R.S. §41-1279.03. The total for each fund should agree to the total expenditures reported for the fund on page 8 or 9, as applicable.

SUPPLEMENT TO ANNUAL FINANCIAL REPORT (ADE/AG 41-202A, Rev. 9/05-FY 2004-05)

Complete and submit these pages only if the district budgeted for Special Education Disability Title 8, P.L. 103-382 Add-On, Desegregation (A.R.S. §15-910), Special K-3 Program Override (A.R.S. §15-482), or Joint Career and Technical Education and Vocational Education Center expenditures (A.R.S. §15-910.01).

Page 4, Full-Day Kindergarten Funds

The Full-Day Kindergarten Fund (Fund 060) accounts for monies received for full-day kindergarten instruction. Monies were provided in FY 2004-05 to schools with a student count in which at least 90% of the pupils met the economic eligibility requirements established under the National School Lunch and Child Nutrition Acts. Monies received for full-day kindergarten and any interest earnings on the monies must be spent only for full-day kindergarten instruction.

The Full-Day Kindergarten Capital Fund (Fund 065) accounts for monies received from the School Facilities Board for full-day kindergarten capital projects. The expenditure budget amount reported on line 9 should agree to the amount reported for Full-Day Kindergarten Capital that was included as an Other Fund on the most recently revised, adopted FY 2004-05 expenditure budget.

SUMMARY OF SCHOOL DISTRICT ANNUAL FINANCIAL REPORT (ADE/AG 41-202S, Rev. 9/05-FY 2004-05)

The Summary condenses the information in the AFR for more economical publication. Information in the Summary should agree to the AFR. Therefore, the AFR should be completed before the Summary.

Average Daily Membership (ADM)

Obtain total Attending ADM for FY 2003-04 and FY 2004-05 from the district's copies of the ADM Attending Summary reports (ADMS 45-2). Obtain total Resident ADM for FY 2003-04 and FY 2004-05 from the Recalculated State Aid ADM Counts reports (ADMS 46-1), 100th-day counts. Both reports are available on ADE's Web site at www.ade.az.gov/districts.

Maintenance and Operation Total, Unrestricted Capital Outlay, and Soft Capital Allocation Lines - Beginning Fund Balance Column

Record the actual beginning fund balances, as reported on the AFR, page 1, line 1.

Other Capital Funds

Record the total of Funds 660 and 670 as reported in the Other Funds section of the AFR, page 9, lines 27 and 28.

Federal Projects

Record the total of Funds 100-399 as reported in the Special Projects section of the AFR, page 8, line 17.

State Projects

Record the total of Funds 400-499 as reported in the Special Projects section of the AFR, page 8, line 29.

School Plant

Record the combined totals of School Plant Funds 500, 505, 506, and 640 as reported in the Other Funds section of the AFR, page 9, lines 4 through 6, and 25.

Gifts and Donations

Record the combined total of Funds 530 and 650, as reported in the Other Funds section of the AFR, page 9, lines 11 and 26.

FOOD SERVICE AFR

The food service AFR has been included as a separate file and should be completed and submitted with the AFR. Specific instructions for completing this page can be found in ADE's enclosed Annual Financial Report, Food Service Instructions.

CLASSROOM SITE FUND REPORTING FORMS

The Classroom Site Fund Expenditures by School and the Narrative Results Summary forms have been included in this memorandum so districts can meet the requirements of A.R.S. §15-977(J). The total amount reported on the Classroom Site Fund Expenditures by School form should agree to the total expenditures reported for the Classroom Site Funds on the AFR, page 4. For districts with only one school, completing page 4 of the AFR will satisfy the requirement to report Classroom Site Fund expenditures by school.

FULL-DAY KINDERGARTEN FUNDS REPORTING FORMS

The Full-Day Kindergarten Fund Revenues/Expenditures by School, Full-Day Kindergarten Capital Fund Revenues/Expenditures by School, and Full-Day Kindergarten Funds Narrative by School forms have been included in this memorandum so districts can meet the requirements of A.R.S. §15-901.02(G). For districts with only one school, completing Supplement page 4 of the AFR will satisfy the requirement to report expenditures by school for the Full-Day Kindergarten Funds.

A Full-Day Kindergarten Funds Narrative by School form **should be completed for each school in the district** which receives full-day kindergarten monies.

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Line 4a. For any questions related to the assessments for full-day kindergarten pupils, please call an Early Childhood Education specialist at ADE at (602) 364-1530 or email fulldaykinder@ade.az.gov.

If you have any questions or need assistance, please call the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695, or the Office of the Auditor General, Accounting Services Division at (602) 553-0333.

MDH/VGS/gr